



## FINANCIAL STATEMENTS

April 30, 2010 and 2009

(With Independent Auditors' Report Thereon)



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Ames Lake Water Association

We have audited the accompanying statements of assets, liabilities and membership equity--cash basis of Ames Lake Water Association (the Association) as of April 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets--cash basis for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, Basis of Presentation, the Association's policy is to prepare its financial statements using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As discussed in Note 2, Contributions in Aid of Construction, it is impractical for us to confirm the value of contributed improvements to the water system. Accordingly, we do not express an opinion as to the value of the contributed property and equipment in the financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to confirm the value of contributed improvements to the water system, the financial statements referred to in the first paragraph above present fairly, in all material respects, the assets, liabilities and membership equity of Ames Lake Water Association as of April 30, 2010 and 2009, and its revenues, expenses and changes in its net assets for the years then ended, on the basis of accounting described in Note 2.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of expenses on page 9 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Vine Dahlen PLLC*

August 12, 2010

AMES LAKE WATER ASSOCIATION  
STATEMENTS OF ASSETS, LIABILITIES AND MEMBERSHIP EQUITY--CASH BASIS  
April 30, 2010 and 2009

ASSETS		
	2010	2009
CURRENT ASSETS:		
Cash and equivalents	\$ 833,143	\$ 539,747
Prepaid expenses	7,406	7,406
TOTAL CURRENT ASSETS	840,549	547,153
OTHER ASSETS:		
Property and equipment, net	3,102,276	3,134,379
Easements	13,500	13,500
TOTAL OTHER ASSETS	3,115,776	3,147,879
	\$ 3,956,325	\$ 3,695,032
LIABILITIES AND MEMBERSHIP EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 30,000	\$ 28,000
Taxes withheld	7,605	4,843
TOTAL CURRENT LIABILITIES	37,605	32,843
LONG-TERM DEBT, net of current portion	820,273	850,406
MEMBERSHIP EQUITY:		
Membership certificates	1,157,900	1,157,900
Unrestricted net assets	1,940,547	1,653,883
TOTAL MEMBERSHIP EQUITY	3,098,447	2,811,783
	\$ 3,956,325	\$ 3,695,032

AMES LAKE WATER ASSOCIATION  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS--CASH BASIS  
For the Years Ended April 30, 2010 and 2009

	2010	2009
REVENUES:		
Membership fees	\$ 719,615	\$ 621,392
Contributions in aid of construction	9,348	12,503
TOTAL REVENUES	728,963	633,895
EXPENSES:		
Program services:		
Water distribution	410,632	398,367
Supporting services:		
Administration	173,866	162,561
TOTAL EXPENSES	584,498	560,928
INCOME FROM OPERATIONS	144,465	72,967
ASSESSMENT ACTIVITY:		
Assessments	355,822	335,494
Interest expense	(44,946)	(47,348)
Depreciation	(188,929)	(187,863)
	121,947	100,283
OTHER INCOME (EXPENSE):		
Interest and dividend income	4,460	5,976
Unrealized loss on investments	0	(32,461)
Rental income	15,792	16,272
	20,252	(10,213)
EXCESS OF REVENUES OVER EXPENSES	286,664	163,037
BEGINNING UNRESTRICTED NET ASSETS	1,653,883	1,490,846
ENDING UNRESTRICTED NET ASSETS	\$ 1,940,547	\$ 1,653,883

See accompanying notes to financial statements.

AMES LAKE WATER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2010 and 2009

1. NATURE OF ACTIVITIES

Ames Lake Water Association (the Association) is a not-for-profit consumer owned cooperative located in unincorporated north central King County, Washington, whose purpose is to provide water services to its members. The Association is a nonprofit corporation under the laws of the State of Washington.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Association is presented to assist in understanding the Association's financial statements. These financial statements have been prepared on the cash basis of accounting and these accounting principles have been consistently applied in the preparation of the financial statements.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation

The records of the Association are maintained on the cash basis of accounting and the accompanying statements have been prepared on that basis. Noncash transactions are not recognized except depreciation, in-kind contributions in aid of construction, and amortization of loan principal.

The cash basis differs from U.S. generally accepted accounting principles primarily because certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. The cash basis is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association has no temporarily or permanently restricted net assets.

Cash and equivalents

Cash and equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Property and equipment

Property and equipment are recorded at cost if purchased and fair value at the date of acquisition if received as a contribution. Water systems are required to update and submit a comprehensive plan every six years to various authoritative agencies. Provision for depreciation of all items of property and equipment is computed on the straight-line method over the estimated useful lives of the assets: 15 - 40 years for wells, pumps and water distribution systems, 15 - 40 years for fire hydrants included in machines and equipment, 10 years for other assets in machines and equipment, vehicles, and all office equipment, and 3 years for computer software that is included in office equipment.

AMES LAKE WATER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions in aid of construction

All contributions received by the Association involve improvements or additions to the existing water distribution system. Certain water service extensions are contributed by developers to the Association in exchange for membership certificates and the right to obtain water from the Association. The estimated costs of such extensions are added to property and equipment and the appropriate number of memberships granted are added to the membership certificates balance. Where the value of the extensions exceeds the value of certificates granted, the difference is recorded as a contribution in aid of construction and is added to the current year's revenues.

When the Association receives water system improvements contributed by developers where actual cost or confirmation of cost from developers is unavailable, the Association's management estimates the fair value of the contributions at the date of acquisition.

Federal income taxes

The Association has obtained tax exempt status under Section 501(c)(12) of the Internal Revenue Code. An organization described in Section 501(c)(12) must receive at least 85% of its income from amounts collected from members for the sole purpose of meeting current and future losses and expenses.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2010	2009
Land	\$ 32,500	\$ 32,500
Construction in progress	95,118	30,964
Wells, pumps and water distribution systems	5,760,232	5,690,871
Machines and equipment	80,071	69,760
Office equipment	36,573	23,573
Vehicles	13,486	13,486
	6,017,980	5,861,154
Less accumulated depreciation	2,915,704	2,726,775
	\$ 3,102,276	\$ 3,134,379

Depreciation expense totaled \$188,929 and \$187,863 for the years ended April 30, 2010 and 2009, respectively.

4. LONG-TERM DEBT

Notes payable to the United States Department of Agriculture (USDA):

Payable in monthly installments of \$2,121, including interest at 5.25%. The note matures in 2033.

\$ 342,305      \$ 349,576

Payable in monthly installments of \$2,310, including interest at 4.625%. The note matures in 2044.

316,141      328,915

AMES LAKE WATER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT (Continued)

Notes payable to the United States Department of Agriculture (USDA) (continued):

	2010	2009
Payable in monthly installments of \$1,055, including interest at 6.5%. The note matures in 2028.	131,579	135,544
Payable in monthly installments of \$604, including interest at 5%. The note matures in 2021.	60,248	64,371
	850,273	878,406
Less current portion	30,000	28,000
	\$ 820,273	\$ 850,406

Future maturities of long-term debt are as follows:

<u>Years ending April 30,</u>		
2011	\$	30,000
2012		31,000
2013		33,000
2014		35,000
2015		36,000
Thereafter		685,273
	\$	850,273

All property and equipment as disclosed in Note 3, accounts receivable and future revenue are secured as collateral for notes payable to the USDA above.

5. MEMBERSHIP CERTIFICATES

Upon joining the Association, each member is required to purchase a membership certificate as their contribution to capital. Following is a summary of activity in membership certificates:

	2010		2009	
	Number	Value	Number	Value
Beginning Balance	1,159	\$ 1,157,900	1,160	\$ 1,159,900
Repurchased	0	0	(1)	(2,000)
Ending Balance	1,159	\$ 1,157,900	1,159	\$ 1,157,900

During the year ended April 30, 2009 an unused membership certificate was repurchased by the Association. The membership was repurchased at the amount of a membership fee on the current fee schedule. On August 14, 2007, the Board approved an emergency interim moratorium on the issuance of new memberships. The moratorium was partially lifted to allow for the addition of 25 memberships beginning in April 2010.

AMES LAKE WATER ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

6. COMMITMENTS

The Association is the lessor of property with the following lease term: \$6,912 per year beginning August 2005 through July 2010. The tenant has the option to extend the lease for two additional five-year terms. Lease income for each of the years ended April 30, 2010 and 2009 was \$6,912.

On October 23, 2000, the Association entered into a use agreement which authorizes and consents to the subleasing of the property by the tenant under the same effective dates as the tenant's original lease agreement. For granting the consent for the tenant to sublease, the Association will receive the following consideration under the use agreement: \$5,040 per year for the first user and an additional \$1,440 per year for each additional user. The tenant as sublessor then has the option to extend this use agreement for two additional five-year terms. Consideration for granting consent to sublease for each of the years ended April 30, 2010 and 2009 was \$8,880 and \$9,360, respectively.

7. RELATED PARTY TRANSACTIONS

A member of Ames Lake Water Association is engaged to provide consulting services to the Association. Payments to this member totaled \$8,770 and \$9,482 for the years ended April 30, 2010 and 2009, respectively.

A member of Ames Lake Water Association is an employee of the Association. Payments to this member totaled \$22,755 and \$31,400 for the years ended April 30, 2010 and 2009, respectively.

8. SUBSEQUENT EVENTS

The date to which events occurring after April 30, 2010, the date of the most recent statement of assets, liabilities and membership equity--cash basis, have been evaluated for possible adjustment to the financial statements or disclosure is August 12, 2010, which is the date the financial statements were available to be issued.

9. INCOME TAXES

For the year ended April 30, 2010, the Association adopted FASB ASC 740-10, "Income Taxes." The implementation of this standard had no impact on the Association's statement of assets, liabilities and membership equity--cash basis or statement of revenues, expenses and changes in net assets--cash basis. The Association does not believe its financial statements include (or reflect) any uncertain tax positions.

The Association's tax filings are subject to audit by various taxing authorities. The Association's open audit periods are 2007 - 2010. In evaluating the Association's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations, and tax planning strategies are considered. The Association believes their estimates are appropriate based on current facts and circumstances.

At April 30, 2010 and 2009, there are no unrecognized tax benefits that if recognized would affect the annual effective tax rate of the Association.

At April 30, 2010 and 2009, and for the years then ended, the Association recognized \$0 in interest and penalties in the accompanying financial statements.



SUPPLEMENTARY INFORMATION

AMES LAKE WATER ASSOCIATION  
SCHEDULES OF EXPENSES--CASH BASIS  
For the Years Ended April 30, 2010 and 2009

	2010	2009
<b>WATER DISTRIBUTION:</b>		
Salaries and related expenses	\$ 185,748	\$ 170,830
Repairs and maintenance	53,749	57,325
Consulting fees	34,678	42,923
Utilities	31,990	32,023
Supplies	24,361	28,294
Taxes	32,765	27,416
Travel	8,247	9,516
Insurance	8,506	8,835
Rent	9,600	8,800
Chemicals	4,301	4,557
Licenses and permits	4,488	3,699
Miscellaneous	5,905	4,149
Conservation/cross connection	3,495	0
Subcontractors	2,799	0
	410,632	398,367
<b>ADMINISTRATION:</b>		
Salaries and related expenses	79,463	81,936
Professional fees	51,099	43,558
Office expense and supplies	13,941	13,523
Rent	14,020	11,459
Director reimbursement and meetings	7,164	4,954
Telephone	5,070	3,903
Information systems	1,902	2,187
Miscellaneous expense	1,207	1,041
	173,866	162,561
<b>TOTAL EXPENSES</b>	<b>\$ 584,498</b>	<b>\$ 560,928</b>